

percentage amount above the voluntary market rate approved by the Commissioner which all beach and coastal property owners must pay to purchase coverage through the Plan.

## **BACKGROUND AND FINDINGS**

Since 1995, exposure to losses for properties covered by the Plan has grown exponentially. As noted by Dr. David Marlett, Chair, Department of Finance, Banking and Insurance, Appalachian State University and in presentations by the NCIUA, total exposure under the Plan was \$3.6B in 1995. By 2008, exposure had grown to \$72B. As expressed by several insurers in presentations to the Committee, this growth in exposure has raised concern over the amount of potential assessments on insurers under the Plan. Mr. Joe Stewart, Executive Director, Insurance Federation of North Carolina, noted that the unpredictability of assessments is a threat to insurer solvency and makes it difficult for insurers to prepare for an assessment by reserving funds and purchasing reinsurance.

Estimates as to the size of potential assessments varied. Ms. Nancy Watkins, Milliman, Inc., estimated in their financial analysis of the Plan prepared at the request of the Property Casualty Insurers Association of America that surplus funds and reinsurance currently available to the Plan total \$1.5B. Milliman estimates potential losses to the Plan after reinsurance to range from \$879M for a 1 in 10 year storm to \$6.8B for a 1 in 250 year storm. By comparison, Ms. Rose Vaughn Williams, Legislative Counsel, Department of Insurance, estimated at the Sept 30 meeting that Hurricane Hazel in 1954 caused almost \$6.9B in losses statewide. Dr. Marlett noted in his presentation that a 1 in 10 year storm of \$879M would use the entire accumulated surplus and that subsequent storms would require larger assessments since no surplus would be available.

Recommendations for action were received from a number of insurers. At the Committee's meeting on October 29, 2008, Mr. Steve Carol, General Manager for NC Farm Bureau Insurance Group, stated that the "reality of the Beach Plan being a market of last resort has long since left us" and "will not change until the industry sees voluntary rates as adequate." The Property Casualty Insurers Association of America agreed and indicated that the Beach Plan has become "the market of first choice." Mr. Bradley Lemons, Vice-President, Property Product Pricing, Nationwide Insurance, echoed the concerns of many insurers when he noted the following: (1) storm activity generally is increasing across the nation's coastline and NC's coast is one of the most vulnerable state coastlines to storm loss; (2) rates are inadequate when compared to the level of risk; (3) an assessment layer should continue to exist but companies should not be expected to assume all risk of loss when Beach Plan resources are exhausted; and (4) the current system does not allow for any predictability in the amount of assessments and the inability to plan for a maximum assessment makes it difficult and expensive for insurers to purchase their own reinsurance in the private market. Mr. Lemons and other insurers commented that both coastal and inland areas are subject to loss. But an insurer's financial risk should not be concentrated primarily in one area.